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The Cafta Opportunity

If Washington is wondering why financial markets are jittery these days, it might consider the recent U.S. political turn against open trade. The Senate and the Bush Administration are threatening sanctions or tariffs against China, while the GOP majority in Congress is having trouble mustering the votes to expand trade with the poorest countries of Central America.

We'll save China for another day, but if Congress can't pass Cafta -- the Central American Free Trade Agreement -- everyone will begin reassessing America's global economic leadership. A House vote is scheduled for May, and too many Members are running for cover, thanks especially to the sugar and textile lobbies. It's a sign of Washington's bizarro-world quality that two industries that together account for a fraction of U.S. GDP are nonetheless wagging the Beltway.

Cafta would expand the market for U.S. goods with the 44 million consumers in Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, as well as with the Dominican Republic in the Caribbean. As it happens, thanks to earlier trade laws, the U.S. market is already quite open to their goods. Nearly 80% of goods from the six Cafta countries currently enter the U.S. duty-free. Two-way trade was \$31.9 billion in 2003, according to the Cato Institute, making the Cafta region America's 13th largest trading partner -- bigger than Brazil, Singapore or Australia.

Cafta would return the favor by eliminating most tariffs on U.S. exports to the region. On motor vehicles and parts, Cafta countries levy an average tariff of 11% while the U.S. rate is zero. On vegetables, fruits and nuts, the Cafta region's average is 16.7%, again compared with zero in the U.S. On grains, it is 10.6% to zero; and on meat products, it's 14.7% while the U.S. rate is 3%. Cafta would remove these disparities.

One big winner under Cafta would be U.S. agriculture, which has seen its market share fall in the region as trade agreements have given preferential access to Canada, the European Union and South American countries. The average tariff on U.S. agricultural exports to the region is 11% and reaches as high as 150%, says the Office of the U.S. Trade Representative. The American Farm Bureau Federation estimates that U.S. farm exports to the region -- \$1.6 billion in 2003 -- would increase by \$1.5 billion a year when Cafta is fully implemented. The winners would include the feed, potato, pork, grain, corn, milk, oilseed, soybean and meat industries.

Yet Cafta could still fail because of the opposition of the economically tiny, but politically gigantic, sugar industry. This is all the more astonishing when you consider how little sugar "opening" Cafta really allows. American sugar import quotas would rise by all of 1% of the U.S. market in the first year. After 15 long years of phased-in "liberalization," sugar imports would rise to the magnificent level of 1.7%.

Oh -- and did we mention that the government price supports that keep U.S. sugar prices two and half times the world market would be preserved? The International Trade Commission forecasts that prices could decrease between 0.25% and 1.2%, estimates which the Grocery Manufacturers of America says "are almost certainly overstated." And yet the U.S. sugar lobby -- a few families in Florida, Texas and Louisiana, plus sugar beet farmers in the Midwest -- can't tolerate even this much competition because it fears the political precedent. Big Sugar's Beltway clout is a bipartisan scandal that deserves a lot more media scrutiny.

Meanwhile, as ever there is the textile lobby, which wants it both ways on Cafta. On the one hand, Cafta will help some of the U.S. industry compete with China, especially by providing a market for American fabric. (Chinese garment makers typically use their own fabric.) At the same time, the textile lobby wants to block fabric makers in Mexico and Canada from selling cloth to Cafta countries for apparel that could then be exported duty-free to the U.S. The idea is to force Cafta apparel makers to buy U.S. fabric only. But if that happens, those same companies might simply move to China anyway, for lower costs and to avoid the hassle. In the end, that would cost even more U.S. fabric-making jobs.

Another familiar opponent is the AFL-CIO, which is putting special pressure on Democrats. So far only two House Democrats -- Henry Cuellar of Texas and William Jefferson of Louisiana -- have come out in favor of Cafta. One of Big Labor's objections is that Cafta merely requires the countries to enforce their own labor and environmental laws. It wants the U.S. to force them to abide by standards closer to our own -- as if the U.S. had the same standards when it was much poorer, and as if Congress would tolerate such foreign intrusion today.

Cafta of course rhymes with Nafta, and it's worth remembering that the "giant sucking sound" that Nafta critics predicted 12 years ago never did happen. The U.S. economy has continued to prosper and create jobs, while more opportunities have been opened for Mexicans inside Mexico. If Cafta fails because Congress fears competition from El Salvador, imagine what they'll conclude in Beijing.